

CITY OF MILPITAS

Actuarial Valuation of
Postretirement Medical and Dental Plans

Valuation Date: July 1, 2005

PENSION CONSULTANTS AND ACTUARIES

333 HEGENBERGER ROAD
SUITE 800
OAKLAND, CALIFORNIA 94621

TEL: 510 567-0610
FAX: 510 567-0629

April 20, 2005

Ms. Emma Karlen
Director of Financial Services
City of Milpitas
455 E. Calaveras Blvd.
Milpitas, CA 95035

Dear Ms. Karlen:

Re: Actuarial Valuation of Postretirement Medical and Dental Plans

The Nicolay Consulting Group is pleased to present the results of the July 1, 2005 actuarial valuation of the City of Milpitas postretirement medical and dental plans. In preparing the report, we relied on employee data and plan information provided by the City. On the basis of that information, this report has been prepared in accordance with generally accepted actuarial principles and methods. It is our opinion that the actuarial assumptions used are reasonably related to the actual experience of the plan and to anticipated future experience.

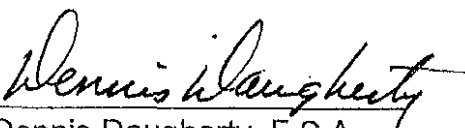
The financial projections presented in this letter are intended for the City's internal use in evaluating the potential cost of the retiree medical programs. Because future events frequently do not occur as expected, it should be recognized that there are usually differences between anticipated and actual results. These differences may be material, especially if there are significant changes in the employee or retiree population. Consequently, we can express no assurance that the projected values will occur. We recommend that the City obtain an updated actuarial valuation on a periodic basis.

Questions about the report should be directed to Dennis Daugherty at (800) 998-7675 x221.

Sincerely,

Nicolay Consulting Group

By:


Dennis Daugherty, F.S.A.

Member, American Academy of Actuaries

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SECTION I

Executive Summary

This Executive Summary presents the results of the July 1, 2005 actuarial valuation of the City of Milpitas postretirement medical and dental programs.

Background

The City of Milpitas provides postretirement medical and dental benefits to retirees who satisfy certain eligibility requirements. The eligibility requirements vary by bargaining unit. Currently, the City accounts for the cost of these benefits on a pay-as-you-go basis. However, commencing with the 2007/08 fiscal year the City will be required to account for these benefits on an accrual basis.

In 2004 the Governmental Accounting Standards Board issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. When they become effective the new accounting rules will have a dramatic effect on the financial statements of many public employers. The types of benefits covered by this statement are often referred to as OPEB, which stands for Other Postemployment Benefits. OPEB includes all postemployment benefits except pension benefits and termination incentives.

The main premise of Statement No. 45 is that "postemployment benefits are part of an exchange of salaries and benefits for employee services rendered". Some benefits are taken while employees are in active service and others, including postretirement healthcare benefits, are taken after retirement.

From an accrual accounting perspective, the cost of postretirement healthcare benefits, like the cost of pension benefits, generally should be associated with the periods in which the exchange occurs, rather than with the periods when the benefits are provided.

GASB Statement No. 45 requires that the accrual basis measurement and recognition of the cost of postretirement healthcare benefits take place over a period that approximates the employees' years of service. The Statement also requires the periodic reporting of information about actuarial accrued liabilities associated with these benefits and whether and to what extent progress is being made in funding the plan.

It should be noted even though terminology contained in Statement No. 45 refers to the "Annual Required Contribution" and the "Annual OPEB Cost" there is no legal requirement that an employer contribute these, or any other, amounts to a trust. Further, there should not be any inference made as to whether these would be the optimum contribution amounts if an employer decides to pre-fund the plan.

In addition to the City's "defined benefit" plans the City also makes contributions to the MPOA, MEA and MSA on behalf of dependent coverage. These amounts can be considered contributions to "defined contribution" plans. While Statement No. 45 requires certain financial statement disclosures for this type of plan, the Statement does not require an employer to accrue for this obligation. Instead, annual OPEB cost is equal to the required contributions. The City's "defined contribution" plans were not included in this valuation.

The City retained the Nicolay Consulting Group to complete an actuarial valuation of its postretirement medical and dental programs. The valuation date is July 1, 2005 and the results of the valuation were used to prepare illustrations of the likely impact of Statement No. 45.

Valuation Results

An actuarial valuation is the determination, as of a valuation date, of the actuarial present value of obligations and the annual accrual cost of those obligations.

The July 1, 2005 actuarial valuation of the City's postretirement medical and dental plans was based on a set of economic and demographic assumptions and census information provided by the City. 428 active employees and 125 retirees were included in the valuation.

All valuation assumptions are described in detail in the valuation report that accompanies this Summary. The valuation results are presented below as if the City had elected to adopt Statement No. 45 on July 1, 2005. Valuation results by bargaining unit are shown in the full valuation report.

Table I-1	
Unfunded Actuarial Accrued Liability*	
Based on a 4.00% discount rate	
as of July 1, 2005	
Active Employees	\$34,594,910
Retirees	<u>\$14,790,521</u>
Total	\$49,385,431**

* The present value of future benefits attributable to past service

** \$47,137,310 (95.4%) of the Past Service obligation is for Medical Benefits, \$2,248,121 (4.6%) is for Dental Benefits.

Table I-2 contains a five-year projection of the City's Unfunded Actuarial Accrued Liability, Annual OPEB Cost, net OPEB obligation and pay-as-you-go cost. The Annual OPEB Cost and pay-as-you-go cost are also illustrated as a percentage of estimated annual payroll. The projections are based on the same set of assumptions used to complete the July 1, 2005 valuation.

Please note the following:

- The projections shown in Table I-2 are based on the closed group of current employees and retirees. The projections do not include any assumptions about employees who would be hired as replacements for departing employees.

- The projections are based on the assumption that the City will only contribute the pay-as-you-go cost and will not commence pre-funding the obligation prior to July 1, 2005.
- The Annual Required Contribution (ARC) refers to an employer's accrual expense. It should not be interpreted as a required contribution amount. The ARC consists of two components – the Normal Cost and a provision for amortizing the total Unfunded Actuarial Accrued Liability. Normal Cost is that portion of the Actuarial Present Value of benefits and expenses which is allocated to a valuation year. Another interpretation of Normal Cost is that it is the present value of benefits earned by employees for service rendered during the current year. In our calculations we assumed that the City would elect to amortize its Unfunded Actuarial Accrued Liability over a 30-year period; the maximum allowed by Statement No. 45.
- The Annual OPEB Cost includes the ARC, interest on the net OPEB obligation and an adjustment to the ARC. As shown in Table I-2, the Annual OPEB Cost is expected to increase steadily throughout the five-year projection period.
- If the City decides to commence pre-funding the obligation and elects to contribute the amount of the Annual OPEB Cost to a Trust then the net OPEB obligation would remain at zero. The effect of this would be that the Interest on the net OPEB obligation would also be zero and the Annual OPEB Cost would be lower.

Table I-2
Five-year Projection of Annual OPEB Cost and Net OPEB Obligation*
Based on a 4.00% discount rate

	2005/06	2006/07	2007/08	2008/09	2009/10
Unfunded Actuarial Accrued Liability (UAAL)	\$49,385,431	\$52,813,118	\$56,115,930	\$59,448,650	\$62,672,421
Normal Cost	\$2,069,310	\$2,183,122	\$2,303,194	\$2,429,870	\$2,563,513
Amortization of UAAL	<u>\$2,855,964</u>	<u>\$3,109,632</u>	<u>\$3,367,683</u>	<u>\$3,640,548</u>	<u>\$3,921,249</u>
Annual Required Contribution (ARC)	\$4,925,274	\$5,292,754	\$5,670,877	\$6,070,418	\$6,484,762
Annual Required Contribution (ARC)	\$4,925,274	\$5,292,754	\$5,670,877	\$6,070,418	\$6,484,762
Interest on net OPEB Obligation	\$0	\$173,279	\$354,465	\$543,209	\$739,434
Adjustment to ARC	<u>\$0</u>	<u>(\$255,066)</u>	<u>(\$531,813)</u>	<u>(\$831,633)</u>	<u>(\$1,156,611)</u>
Annual OPEB Cost	\$4,925,274	\$5,210,967	\$5,493,529	\$5,781,994	\$6,067,585
Contributions made	<u>(\$593,310)</u>	<u>(\$681,297)</u>	<u>(\$774,942)</u>	<u>(\$876,367)</u>	<u>(\$982,969)</u>
Increase in net OPEB Obligation	\$4,331,964	\$4,529,670	\$4,718,587	\$4,905,627	\$5,084,616
Net OPEB Obligation – Beginning of Year	\$0	\$4,331,964	\$8,861,634	\$13,580,222	\$18,485,849
Net OPEB Obligation – End of Year	\$4,331,964	\$8,861,634	\$13,580,222	\$18,485,849	\$23,570,464
Estimated pay-as-you-go Expense	\$593,310	\$681,297	\$774,942	\$876,367	\$982,969
Estimated Annual Payroll	\$39,374,000	\$40,161,000	\$41,366,000	\$42,607,000	\$43,885,000
Normal Cost as a % of Annual Payroll	5.3%	5.4%	5.6%	5.7%	5.8%
Annual OPEB Cost as a % of Annual Payroll	12.5%	13.0%	13.3%	13.6%	13.8%
Pay-as-you-go Expense as a % of Annual Payroll	1.5%	1.7%	1.9%	2.1%	2.2%

* This projection is based on the assumption that during the 5-year period the City will only contribute the pay-as-you-go cost.

SECTION II

Introduction

The City of Milpitas provides postretirement medical and dental benefits to retirees who meet plan eligibility requirements. This report provides an estimate of the City's liability as of July 1, 2005, a ten-year projection of the pay-as-you-go cost of providing the benefits and an illustration of the impact of GASB Statement 45. **Section III** contains valuation results. **Section IV** describes the plans and presents a demographic summary. **Section V** lists the actuarial assumptions used to complete the valuation. **Section VI** contains a Glossary of terms. Most of the definitions are taken directly from GASB Statement 45.

Accounting Requirements

The Governmental Accounting Standards Board (GASB) issued Statement No. 12 effective June 15, 1990 entitled "Disclosure of Information on Postemployment Benefits Other than Pensions by State and Local Governmental Employers". Except for the disclosures described in Statement No. 12, state and local public employers were not required to change their current accounting and financial reporting of these benefits. Statement No. 12 required that for fiscal years ending after June 15, 1990 the following disclosures be made by all state and local governmental employers that provide postemployment benefits other than pensions:

1. A description of the postretirement employee benefits other than pension benefits provided, employee groups covered, and employer and employee obligations to contribute;
2. A description of the statutory, contractual, or other authority under which benefit provisions and obligation to contribute are established;
3. A description of the accounting and funding policies followed for those benefits; and
4. The expenditures/expenses for those benefits recognized for the period and certain related data.

In July 2004 the Governmental Accounting Standards Board issued **Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions***. This statement supersedes Statement 12 and requires governmental entities to begin accounting for postretirement benefits on an accrual basis. When the new accounting rules are adopted public entities that sponsor postretirement benefits will be required to account for the cost of those benefits using accrual accounting rather than the more common pay-as-you-go accounting. This means that each employee's benefit will "accrue" throughout their working lifetime and that employers will be required to show the annual accruals as a current year expense.

Employers must adopt Statement 45 no later than the plan year that begins after December 15, 2006, 2007 or 2008 depending on the annual revenues of the entity (entities with total annual revenues of \$100 million or more will adopt no later than the first year listed above, entities with total annual revenues of \$10 to \$100 million no later than the second year and entities with total annual revenues of less than \$10 million will adopt no later than the third year).

Even though the new accounting rules will not be effective immediately, it is prudent for employers and plans to gain an understanding of the implications of the accrual accounting requirements.

SECTION III

Valuation Results

Postretirement healthcare benefits can be viewed as a form of deferred compensation in which the benefits are taken after an employee retires. From an accrual accounting perspective the cost of these benefits should be treated as an expense throughout each employee's working lifetime rather than when the retiree benefits are actually paid. When an employer first converts to accrual accounting (as will be required by GASB Statement No. 45) there is often a large liability associated with past service that employees and retirees have rendered.

Table 3-1 contains the estimated July 1, 2005 present value of the cost of postretirement medical and dental benefits for current retirees and employees who are expected to receive benefits. It does not include any liability estimates for future hires. Estimates are shown for each of the City's bargaining units. The estimates are based on a number of economic and demographic assumptions. These assumptions are described in **Section V**.

The first set of numbers in Table 3-1 illustrates the estimated present value of all postretirement benefits **attributable to past service**. For current retirees the amount represents the entire present value of all future benefits. For current active employees the amount represents the present value of that portion of their postretirement benefit that is attributable to service they have already rendered. The new GASB Statement No. 45 requires that actuarial liabilities be determined based on employees past service.

The second set of numbers in Table 3-1 provides an illustration of the estimated present value of future benefits that are likely to be "earned" by the City's current employees from the July 1, 2005 valuation date until they retire. These amounts are included for illustrative purposes. GASB Statement No. 45 does not require that the cost of postretirement benefits be recognized until the benefits are "earned".

The third set of number in Table 3-1 illustrates the estimated total present value of future benefits likely to be paid to current and future retirees. These amounts are included to aid the City in its planning processes.

In addition to the "defined benefit" plans included in this valuation the City also makes contributions to the MPOA, MEA and MSA on behalf of dependent coverage. These amounts can be considered contributions to "defined contribution" plans. While GASB 45 requires certain financial statement disclosures for defined contribution plans, the Statement does not require an employer to accrue for this obligation. Instead, annual OPEB cost for defined contribution plans is equal to the required contributions. This report does not include a valuation of the City's defined contribution plans.

Table 3-1
City of Milpitas
Present Value of Future Postretirement Medical and Dental Benefits
Based on a 4.00% discount rate
as of July 1, 2005

Total Present Value Attributable to Past Service (GASB 45)

	<u>PROTECH</u>	<u>LIUNA</u>	<u>Unrepresented</u>	<u>MPOA</u>	<u>MEA</u>	<u>MSA</u>	<u>IAFF</u>	<u>Total</u>
Actives	\$5,986,052	\$2,331,433	\$2,644,488	\$10,235,850	\$6,677,734	\$1,048,505	\$5,670,848	\$34,594,910
Retirees	<u>\$1,984,368</u>	<u>\$275,076</u>	<u>\$2,434,626</u>	<u>\$4,404,920</u>	<u>\$1,806,261</u>	<u>\$221,333</u>	<u>\$3,663,937</u>	<u>\$14,790,521</u>
Total	\$7,970,420	\$2,606,509	\$5,079,114	\$14,640,770	\$8,483,995	\$1,269,838	\$9,334,785	\$49,385,431*

Total Present Value Attributable to Future Service

	<u>PROTECH</u>	<u>LIUNA</u>	<u>Unrepresented</u>	<u>MPOA</u>	<u>MEA</u>	<u>MSA</u>	<u>IAFF</u>	<u>Total</u>
Actives	\$3,248,060	\$1,216,103	\$542,752	\$6,586,467	\$3,024,912	\$154,610	\$3,154,726	\$17,927,630
Retirees	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Total	\$3,248,060	\$1,216,103	\$542,752	\$6,586,467	\$3,024,912	\$154,610	\$3,154,726	\$17,927,630

Total Present Value

	<u>PROTECH</u>	<u>LIUNA</u>	<u>Unrepresented</u>	<u>MPOA</u>	<u>MEA</u>	<u>MSA</u>	<u>IAFF</u>	<u>Total</u>
Actives	\$9,234,112	\$3,547,536	\$3,187,240	\$16,822,317	\$9,702,646	\$1,203,115	\$8,825,574	\$52,522,540
Retirees	<u>\$1,984,368</u>	<u>\$275,076</u>	<u>\$2,434,626</u>	<u>\$4,404,920</u>	<u>\$1,806,261</u>	<u>\$221,333</u>	<u>\$3,663,937</u>	<u>\$14,790,521</u>
Total	\$11,218,480	\$3,822,612	\$5,621,866	\$21,227,237	\$11,508,907	\$1,424,448	\$12,489,511	\$67,313,061

* \$47,137,310 (95.4%) of the Past Service obligation is for Medical Benefits, \$2,248,121 (4.6%) is for Dental Benefits.

Projected Health Benefit Costs

Table 3-2 contains a ten-year projection of the City's pay-as-you-go cost to provide postretirement medical and dental benefits to current and future retirees.

Table 3-2 Projected Future Annual Plan Cost of Postretirement Medical and Dental Benefits	
<u>Year</u>	<u>Based on Estimated Premium Cost</u>
2005/06	\$593,310
2006/07	\$681,297
2007/08	\$774,942
2008/09	\$876,367
2009/10	\$982,969
2010/11	\$1,100,134
2011/12	\$1,224,504
2012/13	\$1,359,470
2013/14	\$1,534,991
2014/15	\$1,711,314

Illustrative Health Benefit Costs Under Accrual Accounting

In July 2004 the Governmental Accounting Standards Board issued **Statement 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions**. This statement requires governmental entities to begin accounting for postretirement benefits on an accrual basis. When the new accounting rules are adopted, public entities that sponsor postretirement benefits will be required to account for the cost of those benefits using accrual accounting rather than the more common pay-as-you-go accounting. This means that each employee's benefit will "accrue" throughout their working lifetime, and that employers will be required to show the annual accruals as a current year expense. The change from pay-as-you-go accounting to accrual accounting will have a significant effect on the financial statements and balance sheets of many public sector employers.

Employers will be required to disclose in their financial statements certain information regarding funding, costs and provisions of the postretirement plans.

The following discussion and Tables provides a pro forma illustration of the liability and financial statement expense that would appear in the City's financial statement if GASB 45 was effective as of July 1, 2005.

Actuarial Accrued Liability

The Actuarial Accrued Liability is the present value of all postretirement benefits **attributable to past service**. Based on a 4.00% discount rate the City's July 1, 2005 Actuarial Accrued Liability is \$49,385,431, which is 73.4% of the total estimated present value of future benefits (\$67,313,061).

Actuarial Value of Assets

The Actuarial Value of Assets are amounts that may be applied to fund the Actuarial Accrued Liability. Note: assets must be segregated and placed in a Trust in order to be considered OPEB assets. We assumed that the City has not pre-funded any portion of this obligation.

Unfunded Actuarial Accrued Liability

The Unfunded Actuarial Accrued Liability is the difference between the Actuarial Accrued Liability and the Actuarial Value of Assets. The City's July 1, 2005 Unfunded Actuarial Accrued Liability is \$49,385,431.

Net OPEB Obligation

Most employers will have no net Other Postemployment Benefits (OPEB) obligation at the beginning of the year in which GASB 45 is implemented.

GASB 45 defines the net OPEB obligation as *"The cumulative difference since the effective date of this Statement between annual OPEB cost and the employer's contributions to the plan..."*.

If an employer contributes the annual OPEB cost to the plan each year, and there are no actuarial or investment gains or losses then the net OPEB Obligation will remain zero.

Annual OPEB Cost

The annual OPEB cost is an accrual basis measure of the annual cost of a defined benefit postretirement plan. It is the amount that an employer must calculate and disclose. When an employer has no net OPEB obligation (e.g., in the year of implementation) the annual OPEB cost is equal to the "Annual Required Contribution", or ARC.

The first year ARC consists of the Normal Cost plus the portion of the Unfunded Actuarial Accrued Liability that is to be amortized in the current period.

Normal Cost is the portion of the actuarial present value of future benefits that is allocated to a particular year. Another interpretation is that the Normal Cost is the present value of future benefits that are "earned" by employees for service rendered during the current year. Using a valuation date of July 1, 2005, a 4% discount rate and the Projected Unit Credit method of allocating the present value of benefits to time periods, the City's 2005/2006 Normal Cost is \$2,069,310.

In the year the new accounting rules become effective, an employer is allowed to commence amortization of the Unfunded Actuarial Accrued Liability over a period not to exceed 30 years. If the City elects a 30-year amortization period and elects level dollar amortization of the Unfunded Actuarial Accrued Liability, the first-year amortization expense will be \$2,855,964. Note: Statement 45 also allows amortization based on a level percentage of projected payroll.

The result of these calculations is a first year ARC of \$4,925,274. In subsequent years the Annual OPEB cost will include:

- the ARC (equal to the Normal Cost plus one year's amortization of the Unfunded Actuarial Accrued Liability);
- one year's interest on the net OPEB obligation at the beginning of the year using the valuation discount rate; and
- an adjustment to the ARC. This adjustment is intended to provide a reasonable approximation of that portion of the ARC that consists of interest associated with past contribution deficiencies. GASB Statement No. 45 specifies that this adjustment should be equal to an amortization of the discounted present value of the net OPEB obligation at the beginning of the year. The amortization should be calculated using the same amortization method and period used in determining the ARC for that year. If the net OPEB obligation is positive the adjustment should be deducted from the ARC.

Future actuarial and experience gains and/or losses will also impact the Annual OPEB cost.

As long as the net OPEB obligation is zero, there will not be any interest charge or adjustment. However, if an employer does not contribute the full amount of the ARC, a net OPEB obligation will emerge. Future actuarial and experience gains and/or losses will also impact the Annual OPEB cost.

Table 3-3 summarizes these calculations based on a 4% discount rate and compares the estimated annual OPEB cost to the City's current pay-as-you-go cost.

<p>Table 3-3</p> <p>Development of Illustrative 2005/2006 Fiscal Year</p> <p>OPEB Annual Required Contribution – based on a 4% discount rate</p>	
Actuarial Accrued Liability	\$49,385,431
Actuarial Value of Assets	<u>\$0</u>
Unfunded Actuarial Accrued Liability	\$49,385,431
Illustrative Amortization Period	30 years
Amortization Factor (based on 4.00% Discount Rate)	17.292
Annual Level Dollar Amortization of Unfunded AAL	\$2,855,964
Normal Cost (based on Projected Unit Credit Method)	<u>\$2,069,310</u>
Annual Required Contribution	\$4,925,274
Estimated 2004/2005 pay-as-you-go Expense	\$593,310

Table 3-4 presents a 5-year projection of the ARC, net OPEB Obligation and pay-as-you-go cost, including an estimate of these items as a percentage of projected annual salaries.

In developing the amounts shown in Table 3-4 we assumed that the discount rate remains 4%, the Normal Cost component of the ARC increases by 5.5% each year (matching the long term expected annual rate of increase in healthcare costs), the City only contributes the pay-as-you-go cost, and that the City amortizes the net OPEB Obligation over the remaining portion of the initial 30-year amortization period.

Table 3-4
City of Milpitas
Five-year Projection of Annual OPEB Cost and Net OPEB Obligation
Based on a 4.00% discount rate

	2005/06	2006/07	2007/08	2008/09	2009/10
Unfunded Actuarial Accrued Liability (UAAL)	\$49,385,431	\$52,813,118	\$56,115,930	\$59,448,650	\$62,672,421
Normal Cost	\$2,069,310	\$2,183,122	\$2,303,194	\$2,429,870	\$2,563,513
Amortization of UAAL	<u>\$2,855,964</u>	<u>\$3,109,632</u>	<u>\$3,367,683</u>	<u>\$3,640,548</u>	<u>\$3,921,249</u>
Annual Required Contribution (ARC)	\$4,925,274	\$5,292,754	\$5,670,877	\$6,070,418	\$6,484,762
Annual Required Contribution (ARC)	\$4,925,274	\$5,292,754	\$5,670,877	\$6,070,418	\$6,484,762
Interest on net OPEB Obligation	\$0	\$173,279	\$354,465	\$543,209	\$739,434
Adjustment to ARC	<u>\$0</u>	<u>(\$255,066)</u>	<u>(\$531,813)</u>	<u>(\$831,633)</u>	<u>(\$1,156,611)</u>
Annual OPEB Cost	\$4,925,274	\$5,210,967	\$5,493,529	\$5,781,994	\$6,067,585
Contributions made	<u>(\$593,310)</u>	<u>(\$681,297)</u>	<u>(\$774,942)</u>	<u>(\$876,367)</u>	<u>(\$982,969)</u>
Increase in net OPEB Obligation	\$4,331,964	\$4,529,670	\$4,718,587	\$4,905,627	\$5,084,616
 Net OPEB Obligation – Beginning of Year	 \$0	 \$4,331,964	 \$8,861,634	 \$13,580,222	 \$18,485,849
Net OPEB Obligation – End of Year	\$4,331,964	\$8,861,634	\$13,580,222	\$18,485,849	\$23,570,464
 Estimated pay-as-you-go Expense	 \$593,310	 \$681,297	 \$774,942	 \$876,367	 \$982,969
 Estimated Annual Payroll	 \$39,374,000	 \$40,161,000	 \$41,366,000	 \$42,607,000	 \$43,885,000
 Normal Cost as a % of Annual Payroll	 5.3%	 5.4%	 5.6%	 5.7%	 5.8%
Annual OPEB Cost as a % of Annual Payroll	12.5%	13.0%	13.3%	13.6%	13.8%
Pay-as-you-go Expense as a % of Annual Payroll	1.5%	1.7%	1.9%	2.1%	2.2%

* \$47,137,310 (95.4%) of the Past Service obligation is for Medical Benefits, \$2,248,121 (4.6%) is for Dental Benefits.

SECTION IV

Plan Description and Demographic Summary

Eligibility and Contribution Requirements

In order to qualify for postretirement medical and dental benefits an employee must retire from the City and maintain enrollment in one of the City's eligible health plans. In addition, the following eligibility rules and contribution requirements apply:

Professional/Technical (PROTECH)

Hire Date/Retirement Date	Eligibility Rule	City Contribution Requirement
Hired prior to July 1, 1995	At least 5 years of service	<p>If retirement occurred between July 1, 1990 and September 1, 2002 – Any employee only medical premium rate.</p> <p>If retirement occurs after September 1, 2002 – Up to the single medical premium rate, but no more than the single rate paid by the City for active employees.</p>
Hired on or after July 1, 1995 and retired on or after September 1, 2002	1 but less than 10 years of service	The City will contribute 25% of the employee only premium but no more than the single rate paid by the City for active employees.
	10 but less than 15 years of service	The City will contribute 50% of the employee only premium
	15 but less than 20 years of service	The City will contribute 75% of the employee only premium
	20 or more years of service	The City will contribute 100% of the employee only premium

Mid-Management and Confidential (LIUNA)

Hire Date	Eligibility Rule	City Contribution Requirement
Prior to July 1, 1995	At least 5 years of full-time service	Up to the employee only medical premium rate, but no more than the employee only rate paid by the City for active employees.
On or after July 1, 1995	1 but less than 10 years of service	The City will contribute 25% of the employee only premium but no more than the employee only rate paid by the City for active employees.
	10 but less than 15 years of service	The City will contribute 50% of the employee only premium
	15 but less than 20 years of service	The City will contribute 75% of the employee only premium
	20 or more years of service	The City will contribute 100% of the employee only premium

Unrepresented (UNREP)

Hire Date	Eligibility Rule	City Contribution Requirement
Prior to July 1, 1995	At least 5 years of full-time service	Up to the employee only medical premium rate, but no more than the employee only rate paid by the City for active employees.
On or after July 1, 1995	1 but less than 10 years of service	The City will contribute 25% of the employee only premium but no more than the employee only rate paid by the City for active employees.
	10 but less than 15 years of service	The City will contribute 50% of the employee only premium
	15 but less than 20 years of service	The City will contribute 75% of the employee only premium
	20 or more years of service	The City will contribute 100% of the employee only premium

Police (MPOA)

Hire Date/Retirement Date	Eligibility Rule	City Contribution Requirement
Retired prior to January 1, 1989	N/A	None. However, retirees may elect to continue coverage on a self-pay basis. Note: the City does contribute the required minimum Cal PERS contribution (\$48.40 per month in 2005)
Hired prior to January 1, 1996	At least 5 years of service	<p>If retirement occurred on or before June 30, 2003 – Any single, medical premium rate.</p> <p>If retirement occurs on or after July 1, 2003 – Up to 15% more than the cap on the City's employee only medical premium for active employees. (i.e., "retiree cap amount")</p>
Hired on or after January 1, 1996	<p>less than 10 years of service</p> <p>10 but less than 15 years of service</p> <p>15 but less than 20 years of service</p> <p>20 or more years of service</p>	<p>The City will contribute up to 25% of the "retiree cap amount"</p> <p>The City will contribute up to 50% of the "retiree cap amount"</p> <p>The City will contribute up to 75% of the "retiree cap amount"</p> <p>The City will contribute up to 100% of the "retiree cap amount"</p> <p>Once a retiree becomes eligible for Medicare the City will contribute up to the "retiree cap amount" toward the Medicare premium</p>

Employee Association (MEA)

Hire Date/Retirement Date	Eligibility Rule	City Contribution Requirement
Hired prior to June 30, 1996	At least 5 years of service	<p>If retirement occurred prior to July 17, 1989 – None.</p> <p>If retirement occurs on or after July 17, 1989 – Any employee only medical premium rate</p>
Hired on or after June 30, 1996	1 but less than 10 years of service	The City will contribute 25% of the lowest cost employee only premium but no more than the lowest employee only single rate paid by the City for active employees.
	10 but less than 15 years of service	The City will contribute 50% of the lowest cost employee only premium
	15 but less than 20 years of service	The City will contribute 75% of the lowest cost employee only premium
	20 or more years of service	The City will contribute 100% of the lowest cost employee only premium

Supervisors (MSA)

Hire Date	Eligibility Rule	City Contribution Requirement
Prior to July 1, 1995	At least 5 years of full-time service	Up to the employee only medical premium rate.
On or after July 1, 1995	1 but less than 10 years of service	The City will contribute 25% of the employee only premium.
	10 but less than 15 years of service	The City will contribute 50% of the employee only premium
	15 but less than 20 years of service	The City will contribute 75% of the employee only premium
	20 or more years of service	The City will contribute 100% of the employee only premium

Fire (IAFF)

Hire Date/Retirement Date	Eligibility Rule	City Contribution Requirement
Retired prior to January 1, 1990	N/A	None. However, retirees may elect to continue coverage on a self-pay basis. Note: the City does contribute the required minimum Cal PERS contribution (\$48.40 per month in 2005)
Retired after January 1, 1990	N/A	Any employee only premium.
Hired prior to January 1, 1995	1 but less than 10 years of service	The City will contribute 50% of the employee only premium
	10 or more years of service	The City will contribute 100% of the employee only premium
Hired on or after January 1, 1995	1 but less than 10 years of service	The City will contribute 25% of the employee only medical premium amount.
	10 but less than 15 years of service	The City will contribute 50% of the employee only medical premium amount.
	15 but less than 20 years of service	The City will contribute 75% of the employee only medical premium amount.
	20 or more years of service	The City will contribute 100% of the employee only medical premium amount.

Duration of Benefits

City provided benefits continue throughout the lifetime of the retiree.

Surviving spouses are allowed to retain coverage. However, the surviving spouse must pay the entire premium cost.

Medical Plans

Retirees from bargaining units other than MEA and MSA can enroll in any of the Cal PERS plans. MEA and MSA retirees can enroll in the Kaiser "S" and Kaiser Senior Advantage "S" plans.

Eligible dependents of retirees are allowed to participate in the plan but the City does not make any direct contribution toward their coverage.

Dental Plan

PROTECH, LIUNA, Unrepresented, MEA and MSA retirees are eligible to participate in the City's self-funded dental plan.

MPOA and IAFF retirees (including Exempt retirees) are eligible to participate in postretirement dental coverage (Delta Dental and IAFF Dental Fund respectively) at no cost to the City.

City Cap

The City's cap on contributions varies by bargaining unit. For certain retirees there is no cap, and the City contributes the full cost of employee only coverage. However, generally, for future retirees, the City's cap is tied to the maximum amount the City contributes toward the cost of active employee only medical coverage (which is usually the Cal PERS Kaiser rate).

Retiree Contributions

Retirees must contribute any medical premium amounts that exceed the City's cap. Retirees must pay the cost of medical premium for dependents.

Eligible retirees contribute \$62.50 per month for dental coverage in the City's self-funded dental plan. The City covers any claim and administration costs that exceed this contribution. Note: MPOA, unrepresented Police, IAFF, and unrepresented IAFF retirees are not eligible for City subsidized postretirement dental coverage.

City Contributions

In addition to the monthly premium cap the City also contributes additional amounts to be used by the MPOA, MEA and MSA to pay for some, or all of the cost of postretirement dependent medical coverage. These contributions are:

- MPOA and MPOA Exempt staff – Each year the City will contribute 1% of payroll and benefits to a fund to be used to help pay dependent medical premiums.

The January 2005 annualized payroll for MPOA and unrepresented Police was \$12,246,264.

- MPOA – The City will contribute \$50 per active employee per month to be used to help pay dependent medical premiums.
- MEA – Each year the City will contribute .41% of payroll and benefits to a fund to be used to help pay dependent medical premiums.

The January 2005 annualized payroll for MEA employees was \$4,900,940.

- MSA – Each year the City will contribute 1% of payroll and benefits to a fund to be used to help pay dependent medical premiums.

The January 2005 annualized payroll for MSA employees was \$791,525.

Because the various contributions listed above can be considered a defined contribution benefit, they do not generate a GASB 45 liability.

For MPOA retirees who retired prior to January 1, 1989 and IAFF retirees who retired prior to January 1, 1990, the City will contribute the Cal PERS Minimum Employer Contribution according to the following schedule:

- 2005 \$48.40
- 2006 \$64.60
- 2007 \$80.80
- 2008 \$97.00
- In 2009 and subsequent years the City's monthly contribution will increase to reflect changes in the medical care component of the Consumer Price Index.

Demographic Data

The City provided demographic information on all current active and retired employees. The data was provided as of January 2005. However, for this valuation we assumed that the census was stable between January 2005 and the July 1, 2005 valuation date and used the census as if it was the actual July 1, 2005 census.

The following Tables contain a summary of the census data used in the valuation.

Table 4-1
Age and Service Table for
Active PROTECH Employees
as of July 1, 2005

<u>Age</u>	<u>Years of Service</u>						<u>Total</u>
	<u><5</u>	<u>5-9</u>	<u>10-14</u>	<u>15-19</u>	<u>20-24</u>	<u>25+</u>	
Under 25	0	0	0	0	0	0	0
25-29	10	1	0	0	0	0	11
30-34	9	0	1	0	0	0	10
35-39	8	3	2	0	0	0	13
40-44	6	2	4	2	0	0	14
45-49	4	1	4	6	2	0	17
50-54	7	3	1	5	1	0	17
55-59	2	0	2	3	1	0	8
60-64	2	2	0	1	0	0	5
65+	<u>1</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>1</u>	<u>4</u>
Total	49	13	14	17	5	1	99

Table 4-2
Age and Service Table for
Active LIUNA Employees
as of July 1, 2005

<u>Age</u>	<u>Years of Service</u>						<u>Total</u>
	<u><5</u>	<u>5-9</u>	<u>10-14</u>	<u>15-19</u>	<u>20-24</u>	<u>25+</u>	
Under 25	0	0	0	0	0	0	0
25-29	2	1	0	0	0	0	3
30-34	3	2	0	0	0	0	5
35-39	1	2	0	0	0	0	3
40-44	1	2	2	2	0	0	7
45-49	2	2	2	1	0	0	7
50-54	3	1	0	0	1	0	5
55-59	3	1	1	1	0	0	6
60-64	0	0	0	2	0	0	2
65+	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
Total	16	11	5	6	1	0	39

Table 4-3
Age and Service Table for
Active Unrepresented Employees
as of July 1, 2005

<u>Age</u>	<u>Years of Service</u>						<u>Total</u>
	<u><5</u>	<u>5-9</u>	<u>10-14</u>	<u>15-19</u>	<u>20-24</u>	<u>25+</u>	
Under 25	0	0	0	0	0	0	0
25-29	0	0	0	0	0	0	0
30-34	1	0	0	0	0	0	1
35-39	0	0	1	1	0	0	2
40-44	1	0	1	2	1	0	5
45-49	3	1	1	1	3	1	10
50-54	4	0	1	1	1	2	9
55-59	0	2	1	0	0	0	3
60-64	1	0	1	1	0	1	4
65+	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	10	3	5	6	6	4	34

Table 4-4
Age and Service Table for
Active MPOA Employees
as of July 1, 2005

<u>Age</u>	<u>Years of Service</u>						<u>Total</u>
	<u><5</u>	<u>5-9</u>	<u>10-14</u>	<u>15-19</u>	<u>20-24</u>	<u>25+</u>	
Under 25	1	0	0	0	0	0	1
25-29	11	5	0	0	0	0	16
30-34	9	4	5	0	0	0	18
35-39	3	11	15	5	0	0	34
40-44	2	2	3	10	2	0	19
45-49	1	1	2	3	8	1	16
50-54	2	0	0	0	1	1	4
55-59	0	0	0	0	0	1	1
60-64	0	0	0	0	1	0	1
65+	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	29	23	25	18	12	3	110

Table 4-5
Age and Service Table for
Active MEA Employees
as of July 1, 2005

<u>Age</u>	<u>Years of Service</u>						<u>Total</u>
	<u><5</u>	<u>5-9</u>	<u>10-14</u>	<u>15-19</u>	<u>20-24</u>	<u>25+</u>	
Under 25	1	0	0	0	0	0	1
25-29	3	0	0	0	0	0	3
30-34	3	2	1	0	0	0	6
35-39	4	7	1	0	0	0	12
40-44	3	5	1	7	1	0	17
45-49	3	4	4	3	2	0	16
50-54	1	0	2	7	1	1	12
55-59	2	1	1	2	1	1	8
60-64	0	0	1	0	0	1	2
65+	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
Total	21	19	11	19	5	3	78

Table 4-6
Age and Service Table for
Active MSA Employees
as of July 1, 2005

<u>Age</u>	<u>Years of Service</u>						<u>Total</u>
	<u><5</u>	<u>5-9</u>	<u>10-14</u>	<u>15-19</u>	<u>20-24</u>	<u>25+</u>	
Under 25	0	0	0	0	0	0	0
25-29	0	0	0	0	0	0	0
30-34	0	0	1	0	0	0	1
35-39	0	0	0	0	0	0	0
40-44	0	0	0	1	0	0	1
45-49	0	0	0	2	0	0	2
50-54	0	0	0	1	1	0	2
55-59	0	0	0	0	1	1	2
60-64	0	0	0	0	0	0	0
65+	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	0	0	1	4	2	1	8

Table 4-7
Age and Service Table for
Active IAFF Employees
as of July 1, 2005

<u>Age</u>	<u>Years of Service</u>						<u>Total</u>
	<u><5</u>	<u>5-9</u>	<u>10-14</u>	<u>15-19</u>	<u>20-24</u>	<u>25+</u>	
Under 25	1	0	0	0	0	0	1
25-29	2	1	0	0	0	0	3
30-34	1	3	1	0	0	0	5
35-39	3	4	1	2	0	0	10
40-44	2	4	3	4	4	0	17
45-49	0	1	2	4	5	2	14
50-54	1	0	0	1	4	2	8
55-59	0	1	0	1	0	0	2
60-64	0	0	0	0	0	0	0
65+	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	10	14	7	12	13	4	60

Table 4-8
Age and Service Table for
All Active Employees
as of July 1, 2005

<u>Age</u>	<u>Years of Service</u>						<u>Total</u>
	<u><5</u>	<u>5-9</u>	<u>10-14</u>	<u>15-19</u>	<u>20-24</u>	<u>25+</u>	
Under 25	3	0	0	0	0	0	3
25-29	28	8	0	0	0	0	36
30-34	26	11	9	0	0	0	46
35-39	19	27	20	8	0	0	74
40-44	15	15	14	28	8	0	80
45-49	13	10	15	20	20	4	82
50-54	18	4	4	15	10	6	57
55-59	7	5	4	7	4	3	30
60-64	3	2	2	4	1	2	14
65+	<u>3</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>1</u>	<u>6</u>
Total	135	83	68	82	44	16	428

Note: Active Employee counts include Part Time employees and employees who have opted out of medical coverage.

Table 4-9
Age Table for All Retirees
Currently Receiving Benefits
as of July 1, 2005

<u>Age</u>	<u>PROTECH</u>	<u>LIUNA</u>	<u>UNREP*</u>	<u>MPOA</u>	<u>MEA</u>	<u>MSA</u>	<u>IAFF</u>	<u>Total</u>
Under 50	0	0	0	8	0	0	5	13
50-54	1	1	2	3	0	0	9	16
55-59	4	1	5	6	4	0	3	23
60-64	5	0	9	11	3	1	9	38
65-69	3	0	4	5	5	1	1	19
70-74	3	0	2	1	2	0	2	10
75-79	1	0	0	0	1	0	1	3
80-84	2	0	1	0	0	0	0	3
85+	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	19	2	23	34	15	2	30	125

* Unrepresented includes 9 MPOA Exempt employees and 6 IAFF Exempt employees.

Table 4-10
Retiree Enrollment by Medical Plan
as of July 1, 2005

<u>Medical Plan</u>	<u>Total</u>
Blue Shield	21
Kaiser	45
No Current Coverage	1
PERS Care	20
PERS Choice	19
PORAC	3
Kaiser "S"	<u>16</u>
Total	125

SECTION V

Actuarial Method and Assumptions

In order to project the City's liabilities into the future, a number of economic, demographic, and baseline cost assumptions are necessary. Where possible, we used the same assumptions that will be used in the next California PERS pension valuations.

Valuation Date

The valuation date is July 1, 2005. This date is the starting point from which current health premium costs are increased according to the assumed annual rates of health care cost trend. The City census is projected from the valuation date to the date of the final benefit payment for each employee and retiree on the census. After calculating future costs for the projected retiree and dependent population, all liabilities are discounted back to the valuation date to obtain the present value of future costs.

Economic Assumptions

Discount Rate

A discount rate is required to calculate the present value of future benefit payments which are used to determine financial statement expense. We used a 4.00% discount rate for this valuation. GASB Statement No. 45 specifies that the selected rate should be "the long-term investment yield on investments that are expected to be used to finance the payment of benefits".

Health Care Trend

The rate of increase in per capita health care costs is commonly referred to as the *health care trend* rate. Although the term "health care inflation" is sometimes used synonymously with the trend rate, health care inflation is only one of several components of the trend rate. The analysis recognizes the following influences on health care trend: pure medical inflation, utilization changes, technological changes, regulatory requirements, Medicare cost shifting, and aging.

Based on our extensive experience with postretirement health plans, we used the following annual trend rates in this valuation:

Table 5-1		
Annual Health Care Cost Trend Rate Assumption		
Estimated Cost Increase in the Plan Year <u>Beginning</u>	<u>Medical</u>	<u>Dental</u>
July 1, 2006	10.0%	3.0%
July 1, 2007	9.0%	3.0%
July 1, 2008	8.0%	3.0%
July 1, 2009	7.0%	3.0%
July 1, 2010	6.0%	3.0%
July 1, 2011 and later	5.5%	3.0%

Note: Because it has not changed in recent years, we assumed that the Retiree's \$62.50 monthly dental contribution requirement will not increase in future years.

Baseline Cost

Estimates of retiree health benefit obligations are normally based on current costs for a one year period. We refer to this as the *baseline cost*. The components of baseline cost, such as average per capita cost, and the current plan population are projected into the future to estimate the cost of future benefits.

Table 5-2 summarizes the baseline cost and City contributions that we used in this valuation. We assumed that the premium rates for all medical plans will increase 10% at the next renewal.

Table 5-2

**Baseline Cost for the Plan Year
Beginning July 1, 2005**

Medical	2005	Estimated 2006
- Cal PERS Employee Only Monthly Premium Rates		
Basic Rates		
Blue Shield	\$389.96	\$428.96
Kaiser	\$354.69	\$390.16
PERS Care	\$619.93	\$681.92
PERS Choice	\$369.74	\$406.71
PORAC	\$399.00	\$438.90
Medicare Supplement Rates		
Blue Shield	\$287.78	\$316.56
Kaiser	\$243.22	\$267.54
PERS Care	\$289.32	\$318.25
PERS Choice	\$279.60	\$307.56
PORAC	\$351.00	\$386.10
	Estimated 2005/2006	
Kaiser "S" Plan	\$371.38	
Kaiser Senior Advantage "S" Plan	\$388.18	

Table 5-2 (continued)

**Baseline Cost for the Plan Year
Beginning July 1, 2005**

Medical	2005	Estimated 2006
- Maximum City Contribution		
Cal PERS "Minimum Employer Contribution" (Applicable to certain MPOA and IAFF retirees)	\$48.40	\$64.60
Kaiser (Applicable to PROTECH, UNREP and LIUNA retirees)	\$354.69	\$390.16
PERS Care (Applicable to IAFF retirees and certain MPOA retirees)	\$619.93	\$681.92
115% of Kaiser (Applicable to MPOA retirees)	\$407.89	\$448.68
	Estimated 2005/2006	
Kaiser "S" Plan (Applicable to MEA and MSA retirees)	\$371.38	
Dental	Estimated 2005/2006	
- Estimated Annual Composite Claim Cost per Retiree	\$1,464	
- Estimated Annual Administration Cost per Retiree	\$60	
- Annual Retiree Contribution	\$750	

Administrative Expenses

The City pays a monthly administration fee to Cal PERS. The current fee is .425% of monthly premium. We included this administration fee in the valuation.

The City pays a dental administrative fee of \$5.00 per employee or retiree per month. This fee does not apply to IAFF, MPOA and Public Safety Exempt retirees.

Annual Salaries

As of January 2005 the City's annualized payroll was \$39,374,000. The payroll is assumed to increase by 2% next year and 3% each year thereafter.

Plan Assets

We understand that as of July 1, 2005, no portion of this obligation had been prefunded.

Demographic Assumptions

In estimating this obligation, a number of demographic assumptions are needed. These assumptions are the same as those adopted for use in the next California PERS pension valuations.

Withdrawal

For the IAFF and MPOA valuations we used withdrawal rates that will be used in the next California PERS Fire and Police 3% @50 retirement plan valuations. Selected rates are shown below.

Table 5-3 IAFF and MPOA Withdrawal Rates		
Completed Years of Service	Fire	Police
0	0.09470	0.12990
1	0.07390	0.08160
2	0.05310	0.03480
3	0.03230	0.03310
4	0.02900	0.03140
5	0.02570	0.02970
6	0.02230	0.02810
7	0.01890	0.02630
8	0.01560	0.02470
9	0.01230	0.02300
10	0.00900	0.02130
15	0.00790	0.01290
20	0.00690	0.00970
25	0.00570	0.00820
30	0.00540	0.00760
35	0.00090	0.00120

For the PROTECH, LIUNA, Unrepresented, MEA and MSA valuations we used withdrawal rates that will be used in the next California PERS Public Agency Miscellaneous 2% @55 and 2.7% @55 retirement plan valuations. Selected rates are shown below.

Table 5-4
Annual Withdrawal Rates

Service	-----Entry Age-----						
	20	25	30	35	40	45	50
0	0.17600	0.16910	0.16220	0.15525	0.14830	0.14140	0.13450
1	0.15610	0.14920	0.14230	0.13535	0.12840	0.12150	0.11460
2	0.13620	0.12930	0.12240	0.11545	0.10850	0.10160	0.09470
3	0.11630	0.10940	0.10250	0.09555	0.08860	0.08170	0.07480
4	0.09640	0.08950	0.08260	0.07565	0.06870	0.06180	0.05490
5	0.07650	0.06965	0.06270	0.05575	0.04880	0.03085	0.01290
6	0.07270	0.06580	0.05880	0.05190	0.04500	0.02810	0.01120
7	0.06890	0.06190	0.05500	0.04815	0.04110	0.02535	0.00960
8	0.06500	0.05805	0.05120	0.04425	0.03730	0.02265	0.00800
9	0.06120	0.05430	0.04730	0.04040	0.03350	0.02000	0.00650
10	0.05740	0.05045	0.04350	0.03660	0.00950	0.00730	0.00510
15	0.04460	0.03755	0.03070	0.00645	0.00460	0.00270	0.00080
20	0.03180	0.02490	0.00410	0.00250	0.00090	0.00055	0.00020
25	0.01900	0.00215	0.00090	0.00055	0.00020	0.00020	0.00020
30	0.00100	0.00060	0.00020	0.00020	0.00020	0.00020	0.00020
35	0.00020	0.00020	0.00020	0.00020	0.00020	0.00010	0.00000

Retirement Rates

For the IAFF valuation we used retirement rates that will be used in the next California PERS 3% @50 Firefighter retirement plan valuation. Selected rates are shown below.

Table 5-5 IAFF Annual Rates of Retirement							
Age	Years of Service						
	5	10	15	20	25	30	35
50	0.03410	0.03410	0.03410	0.04770	0.06790	0.08040	0.08610
51	0.04630	0.04630	0.04630	0.06470	0.09220	0.10910	0.11690
52	0.06930	0.06930	0.06930	0.09670	0.13770	0.16300	0.17460
53	0.08350	0.08350	0.08350	0.11660	0.16610	0.19650	0.21050
54	0.10250	0.10250	0.10250	0.14310	0.20380	0.24120	0.25840
55	0.12650	0.12650	0.12650	0.17660	0.25160	0.29770	0.31900
56	0.12100	0.12100	0.12100	0.16900	0.24070	0.28480	0.30520
57	0.10100	0.10100	0.10100	0.14110	0.20100	0.23780	0.25480
58	0.11840	0.11840	0.11840	0.16520	0.23540	0.27860	0.29850
59	0.10020	0.10020	0.10020	0.13990	0.19930	0.23580	0.25260
60	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000

For the MPOA valuation we used retirement rates that will be used in the next California PERS 3% @50 Police retirement plan valuation. Selected rates are shown below.

Table 5-6 MPOA Annual Rates of Retirement							
Age	Years of Service						
	5	10	15	20	25	30	35
50	0.04350	0.04350	0.04350	0.08210	0.12080	0.15590	0.19100
51	0.03850	0.03850	0.03850	0.07280	0.10710	0.13820	0.16930
52	0.06140	0.06140	0.06140	0.11590	0.17050	0.22000	0.26950
53	0.06890	0.06890	0.06890	0.13030	0.19160	0.24720	0.30280
54	0.07100	0.07100	0.07100	0.13420	0.19740	0.25470	0.31200
55	0.08980	0.08980	0.08980	0.16980	0.24970	0.32220	0.39470
56	0.06870	0.06870	0.06870	0.12990	0.19100	0.24650	0.30190
57	0.08030	0.08030	0.08030	0.15180	0.22320	0.28800	0.35280
58	0.07910	0.07910	0.07910	0.14950	0.21980	0.28370	0.34750
59	0.08200	0.08200	0.08200	0.15490	0.22790	0.29400	0.36020
60	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000

For all other employees we used the retirement rates that will be used in the next California PERS 2.7% @55 retirement plan valuation. Selected rates are shown below.

Table 5-7
Annual Rates of Retirement

Age	-----Years of Service-----						
	5	10	15	20	25	30	35
50	0.01450	0.01840	0.02240	0.02690	0.03070	0.03660	0.04110
51	0.01060	0.01350	0.01640	0.01980	0.02260	0.02690	0.03020
52	0.01140	0.01450	0.01760	0.02120	0.02410	0.02870	0.03230
53	0.01500	0.01900	0.02310	0.02780	0.03180	0.03780	0.04250
54	0.01990	0.02520	0.03070	0.03690	0.04210	0.05020	0.05640
55	0.04750	0.06040	0.07340	0.08830	0.10080	0.12000	0.13490
56	0.03950	0.05020	0.06110	0.07350	0.08380	0.09980	0.11230
57	0.04270	0.05420	0.06590	0.07930	0.09050	0.10780	0.12120
58	0.04730	0.06010	0.07300	0.08790	0.10030	0.11940	0.13430
59	0.05100	0.06480	0.07880	0.09480	0.10820	0.12870	0.14480
60	0.07150	0.09080	0.11040	0.13280	0.15160	0.18040	0.20300
61	0.07150	0.09080	0.11040	0.13280	0.15160	0.18050	0.20300
62	0.12750	0.16200	0.19690	0.23690	0.27040	0.32190	0.36210
63	0.12870	0.16360	0.19880	0.23920	0.27310	0.32500	0.36560
64	0.09310	0.11820	0.14380	0.17290	0.19740	0.23500	0.26430
65	0.17380	0.22090	0.26860	0.32310	0.36880	0.43900	0.49380
66	0.10850	0.13780	0.16750	0.20160	0.23010	0.27390	0.30810
67	0.11090	0.14090	0.17130	0.20610	0.23530	0.28010	0.31500
68	0.08780	0.11160	0.13560	0.16320	0.18630	0.22170	0.24940
69	0.10350	0.13150	0.15990	0.19230	0.21960	0.26140	0.29400
70	0.12240	0.15550	0.18900	0.22740	0.25960	0.30900	0.34760
71	0.09410	0.11950	0.14530	0.17480	0.19950	0.23750	0.26720
72	0.10350	0.13150	0.15980	0.19230	0.21950	0.26130	0.29390
73	0.08340	0.10600	0.12890	0.15510	0.17700	0.21070	0.23700
74	0.06440	0.08180	0.09950	0.11970	0.13660	0.16260	0.18300
75	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000

Disability Retirement

Sample rates for the IAFF and MPOA valuations are shown in Table 5-8.

Because of the low incidence of disability retirements for non-Safety employees we will not value disability retirement for non-Safety employees.

Table 5-8
Annual Rates of Disability

<u>Age</u>	<u>IAFF</u>	<u>MPOA</u>
25	0.21%	0.56%
30	0.21%	0.56%
35	0.41%	1.12%
40	0.41%	1.12%
45	0.62%	1.67%
50	0.62%	1.67%
55	6.00%	5.81%

Mortality

We used the mortality rates proposed for use in the next California PERS retirement plan valuations. Annual mortality rates for selected ages are shown in Table 5-9.

Table 5-9
Sample Mortality Rates

<u>Age</u>	<u>Preretirement</u>		<u>Postretirement</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
55	0.248%	0.178%	0.429%	0.253%
60	0.344%	0.256%	0.721%	0.442%
65	0.480%	0.369%	1.302%	0.795%
70	0.671%	0.537%	2.135%	1.276%
75			3.716%	2.156%
80			6.256%	3.883%
85			10.195%	7.219%
90			17.379%	12.592%

Health Plan Participation

We assumed that upon retiring from the City 100% of eligible employees will enroll in one of the available medical plans.

We assumed that 60% of eligible retirees will enroll in the City's dental program.

Dependent Coverage

The City does not contribute directly to the cost of dependent postretirement medical coverage. Therefore, no dependent assumption is needed.

Medicare Coverage

We assumed that all retirees will be eligible for and enroll in Medicare Part A and Part B when they reach age 65. In this valuation we did not estimate the impact of the new Medicare Prescription Drug benefit.

SECTION VI

Glossary

- Accrual Accounting – A method of matching the cost of an employee's service, including long term obligations such as OPEB, to that employee's period of active service.
- Actuarial Accrued Liability (AAL) – That portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of plan benefits and expenses which is not provided for by future Normal Costs. Note: the AAL is sometimes referred to as the Past Service Liability
- Actuarial Cost Method – A procedure for allocating the actuarial present value of benefits and expenses and for developing an actuarially equivalent allocation of such value to time periods, usually in the form of a Normal Cost and an Actuarial Accrued Liability.
- Actuarial Present Value – The value of an amount or series of amounts payable or receivable at various times. Each such amount or series of amounts is:
 - a. adjusted for the probable financial effect of certain intervening events (such as changes in compensation levels, Social Security, marital status, etc.)
 - b. multiplied by the probability of the occurrence of an event (such as survival, death, disability, termination of employment, etc.) on which the payment is conditioned, and
 - c. discounted according to an assumed rate (or rates) of return to reflect the time value of money
- Actuarial Valuation – The determination, as of a valuation date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets and related Actuarial Present Values.
- Amortization Payment – That portion of the Annual OPEB cost which is designed to pay interest on and to amortize the Unfunded Actuarial Accrued Liability.
- Annual OPEB cost - An accrual-basis measure of the periodic cost of an employer's participation in a defined benefit OPEB plan.
- Annual required contributions of the employer (ARC) - The employer's periodic required contributions to a defined benefit OPEB plan, calculated in accordance with the parameters.

- Defined benefit OPEB plan - An OPEB plan having terms that specify the *benefits* to be provided at or after separation from employment. The benefits may be specified in dollars (for example, a flat dollar payment or an amount based on one or more factors, such as age, years of service, and compensation), or as a type or level of coverage (for example, prescription drugs or a percentage of healthcare insurance premiums).
- Defined contribution plan - A pension or OPEB plan having terms that (a) provide an individual account for each plan member and (b) specify *how contributions to an active plan member's account are to be determined*, rather than the income or other benefits the member or his beneficiaries are to receive at or after separation from employment. Those benefits will depend *only* on the amounts contributed to the member's account, earnings on investments of those contributions, and forfeitures of contributions made for other members that may be allocated to the member's account. For example, an employer may contribute a specified amount to each active member's postemployment healthcare account each month. At or after separation from employment, the balance of the account may be used by the member or on the member's behalf for the purchase of health insurance or other healthcare benefits.
- Employer's contributions - Contributions made in relation to the annual required contributions of the employer (ARC). An employer has made a contribution in relation to the ARC if the employer has (a) made payments of benefits directly to or on behalf of a retiree or beneficiary, (b) made premium payments to an insurer, or (c) irrevocably transferred assets to a trust, or an equivalent arrangement, in which plan assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the plan and are legally protected from creditors of the employer(s) or plan administrator.
- Healthcare cost trend rate - The rate of change in per capita health claims costs over time as a result of factors such as medical inflation, utilization of healthcare services, plan design, and technological developments.
- Investment return assumption (discount rate) - The rate used to adjust a series of future payments to reflect the time value of money.
- Net OPEB obligation - The cumulative difference since the effective date of this Statement between annual OPEB cost and the employer's contributions to the plan, including the OPEB liability (asset) at transition, if any, and excluding (a) short-term differences and (b) unpaid contributions that have been converted to OPEB-related debt.
- Normal Cost - That portion of the Actuarial Present Value of benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method.
- OPEB assets - The amount recognized by an employer for contributions to an OPEB plan greater than OPEB expenses.

- OPEB expense - The amount recognized by an employer in each accounting period for contributions to an OPEB plan on the accrual basis of accounting.
- Other postemployment benefits (OPEB) - Postemployment benefits other than pension benefits. Other postemployment benefits (OPEB) include postemployment healthcare benefits, regardless of the type of plan that provides them, and all postemployment benefits provided separately from a pension plan, except benefits defined as special termination benefits.
- Plan assets - Resources, usually in the form of stocks, bonds, and other classes of investments, that have been segregated and restricted in a trust, or in an equivalent arrangement, in which (a) employer contributions to the plan are irrevocable, (b) assets are dedicated to providing benefits to retirees and their beneficiaries, and (c) assets are legally protected from creditors of the employer(s) or plan administrator, for the payment of benefits in accordance with the terms of the plan.
- Substantive plan - The terms of an OPEB plan as understood by the employer(s) and plan members.
- Unfunded Actuarial Accrued Liability (UAAL) - The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets.
- Valuation date - The date as of which the postretirement benefit obligation is determined.